

ABSTRACT

The Central Bank, its Legal Status and Scope of Activities

Central banks are very powerful institution and central banking is a very complex discipline. Monetary policy, the most important activity of central banking, has become the key instrument of macroeconomic stabilisation. The aim of my paper has been to analyse all the areas of central banks' operations, aiming especially at monetary policy and its instruments, and also to tackle the recently emerged doubts about what the main objective of central banks should be. I also provide a review and an analysis of the current legal status of the Czech National Bank from the independence and accountability point of view.

The first chapter of my work is dedicated to the history of central banking. Second chapter examines the individual functions that central banks carry out, with third chapter analysing the most important of them, the monetary policy. The last chapter is dedicated to the Czech National Bank (CNB) and is subdivided into four parts: the first one is outlining the history of CNB, the second one gives us the detailed overview of the individual functions of CNB, its main target and instruments CNB uses to reach the target. The third one is devoted to CNB relations with European Union and the fourth part focuses on the legal status of CNB especially its independence and accountability.

So far, the main target of most independent central banks has been the price stability. And central banks in the USA and Western Europe were successful in meeting the target. Everything was going well and yet the international financial system found itself at the edge of collapse in 2007/2008. The recent development on the international financial markets proved that monetary stability must go hand in hand with the financial stability. There is a growing consensus that the price stability doesn't guarantee financial stability and that it is, in fact, often associated with excess credit growth and emerging asset bubbles. Central banks are therefore facing the challenge of integrating financial stability into a price stability framework.

The second part of the thesis explains in detail the operations of the Czech National Bank, its main target and instruments which are being used to reach the target. I especially concentrated on its legal status from the independence and accountability point of view,

which has in the past been subject of passionate discussions of both our politicians and central banking experts. Having analyzed all the materials I came to a conclusion that there is indeed a substantial democratic deficit caused by the fact that a very narrow group of people has very powerful instruments and competences at their hands which are however not balanced by personal accountability for their actions.

Key words: central banking, financial stability, monetary policy, independence, accountability